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Report of the independent auditors to the shareholders of National Finance Company SAOG

Report on the financial statements

We have audited the accompanying financial statements of National Finance Company SAOG (the Company) which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading (R&G) issued by the Capital Market Authority (CMA) of the Sultanate of Oman, we report that the accompanying financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974, as amended.

PricewaterhouseCoopers LLP

9 March 2013
Muscat, Sultanate of Oman

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Rial '000	2011 Rial '000
Income from financing activities		**12,001**	10,261
Finance cost		**(3,287)**	(3,181)
Net finance income		**8,714**	7,080
Other operating income	6	**604**	825
Gain on sale of property and equipment		**-**	30
Total income		**9,318**	7,935
Operating expenses			
General and administrative expenses	7	**(3,037)**	(2,848)
Depreciation	15	**(281)**	(127)
		(3,318)	(2,975)
Profit before provision for impairment		**6,000**	4,960
Provision for impairment of lease receivables	12	**(1,393)**	(1,044)
Bad debts written back		**124**	108
Profit before taxation		**4,731**	4,024
Taxation	8	**(618)**	(478)
Total profit and comprehensive income for the year		**4,113**	3,546
Earnings per share (Rial)	9	**0.017**	0.020

The notes on pages 6 to 29 form an integral part of these financial statements.

Report of the Auditors - page 1.

NATIONAL FINANCE COMPANY SAOG

STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	Note	2012 Rial '000	2011 Rial '000
Assets			
Cash and bank balances	10	**1,912**	1,238
Statutory deposit	11	**90**	50
Net investment in financing activities	12	**126,686**	107,520
Advances and prepayments		**1,840**	1,131
Property pending sale	13	**131**	131
Property and equipment	15	**1,515**	1,219
Total assets		**132,174**	111,289
Equity			
Capital and reserves			
Share capital	16	**25,055**	17,555
Revaluation reserve		**662**	679
Legal reserve	17	**2,557**	2,146
Retained earnings		**5,489**	3,524
Total equity		**33,763**	23,904
Liabilities			
Creditors and accruals	18	**3,411**	4,736
Staff terminal benefits	19	**517**	422
Tax liabilities	14	**536**	445
Bank borrowings	20	**81,674**	68,504
Fixed deposits	21	**12,273**	13,278
Total liabilities		**98,411**	87,385
Total equity and liabilities		**132,174**	111,289
Net assets per share (Rial)	9	**0.135**	0.136

These audited financial statements were approved and authorised for issue in accordance with a resolution of the Directors on 30 January 2013 and signed on their behalf by:

TAYA BIN JANDAL BIN ALI
CHAIRMAN

ROBERT PANCRAS
CHIEF EXECUTIVE OFFICER

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Foreign currency reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2012	**17,555**	**679**	**2,146**	**-**	**3,524**	**23,904**
Comprehensive income:						
Profit for the year	**-**	**-**	**-**	**-**	**4,113**	**4,113**
Total comprehensive income	**-**	**-**	**-**	**-**	**4,113**	**4,113**
Transactions with owners:						
Transfer to retained earnings	**-**	**(17)**			**17**	**-**
Transfer to legal reserve	**-**	**-**	**411**	**-**	**(411)**	**-**
Issue of right shares	**7,500**	**-**	**-**	**-**	**-**	**7,500**
Cash dividend	**-**	**-**	**-**	**-**	**(1,754)**	**(1,754)**
Total transactions with owners	**7,500**	**(17)**	**411**	**-**	**(2,148)**	**5,746**
31 December 2012	**25,055**	**662**	**2,557**	**-**	**5,489**	**33,763**

	Share capital Rial '000	Revaluation reserve Rial '000	Legal reserve Rial '000	Foreign currency reserve Rial '000	Retained earnings Rial '000	Total Rial '000
1 January 2011	15,133	734	1,791	153	3,304	21,115
Comprehensive income:						
Profit for the year	-	-	-	-	3,546	3,546
Total comprehensive income	-	-	-	-	3,546	3,546
Transactions with owners:						
Transfer to retained earnings	-	(55)	-	(153)	208	-
Transfer to legal reserve	-	-	355	-	(355)	-
Issue of bonus shares	2,422	-	-	-	(2,422)	-
Cash dividend	-	-	-	-	(757)	(757)
Total transactions with owners	2,422	(55)	355	(153)	(3,326)	(757)
31 December 2011	17,555	679	2,146	-	3,524	23,904

The notes on pages 6 to 29 form an integral part of these financial statements.

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NATIONAL FINANCE COMPANY SAOG

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Rial '000	2011 Rial '000
Operating activities			
Profit before taxation		**4,731**	4,024
Adjustments for:			
Depreciation		**281**	127
Staff terminal benefits		**148**	164
Provision for impairment of lease receivables		**1,393**	1,044
Gain on sale of property pending for sale		**-**	(2)
Gain on sale of property and equipment		**-**	(28)
Bad debts written back		**(124)**	(108)
Interest expense		**3,287**	3,181
Operating profit before working capital changes and payment of end of service benefits		**9,716**	8,402
Staff terminal benefits paid		**(53)**	(46)
Changes in operating assets and liabilities			
Investment in financing activities		**(20,435)**	(27,903)
Advances and prepayments		**(709)**	(255)
Creditors and accruals		**(1,325)**	114
Interest paid		**(3,252)**	(3,215)
Income tax paid		**(527)**	(260)
Net cash used in operating activities (A)		**(16,585)**	(23,163)
Investing activities			
Purchase of property and equipment		**(577)**	(271)
Purchase of collateral asset		**-**	(35)
Proceeds from sale of property and equipment		**-**	69
Proceeds from sale of property pending for sale		**-**	30
Net cash used in investing activities (B)		**(577)**	(207)
Financing activities			
Bank borrowings (net)		**13,118**	25,762
Fixed deposits (net)		**(1,005)**	(2,202)
Statutory deposit paid to CBO		**(40)**	-
Proceeds from right issue of shares		**7,500**	-
Dividend paid		**(1,754)**	(757)
Net cash generated from financing activities		**17,819**	22,803
Net change in cash and cash equivalents		**657**	(567)
Cash and cash equivalents at the beginning of the year		**1,238**	1,805
Cash and cash equivalents at the end of the year	23	**1,895**	1,238

The notes on pages 6 to 29 form an integral part of these financial statements.

Report of the Auditors - page 1.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1 Legal status and principal activities

National Finance Company SAOG (the "Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and has a primary listing on the Muscat Security Market. The principal activity of the Company is leasing business. The Company derives all of its income from financing operations, factoring and working capital funding within the Sultanate of Oman.

2 Summary of significant accounting policies

The principal accounting policies are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 1974, as amended and comply with the disclosure requirements set out in the "Rules and Guidelines on Disclosure by issuers of Securities and Insider Trading" issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

(b) Use of estimates and judgements

The financial statements have been prepared on the historical cost basis except for certain land and buildings that are shown at revalued amount.

The statement of financial position is presented in descending order of liquidity, as this presentation is more appropriate to the Company's operations.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods effected.

(c) Standards, amendments and interpretation effective in 2012 and relevant for the Company's operations:

For the year ended 31 December 2012, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2012.

The adoption of those standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

2 Summary of significant accounting policies (continued)

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2013 or later periods, but the Company has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 December 2012:

IAS 1 (Amendments), 'Presentation of financial statements', (effective on or after 1 January 2013);
IAS 19 (Amendments), 'Employee benefits', (effective on or after 1 January 2013);
IFRS 9, 'Financial instruments', (effective on or after 1 January 2015);
IFRS 10, 'Consolidated financial statements' (effective on or after 1 January 2013);
IFRS 12, 'Disclosures of interests in other entities' (effective on or after 1 January 2013); and
IFRS 13, 'Fair value measurement' (effective on or after 1 January 2013).

2.2 Revenue recognition

Assets owned by the Company but subject to a finance lease, are included in the financial statements as net investment in finance leases. The present value of the future minimum lease payments plus initial direct costs, discounted using the interest rate implicit in the lease, is recognised as a receivable and the difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Initial direct costs include amounts such as commissions, legal fees and internal costs that are directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by sales and marketing team. Income from finance leases represents gross earnings on finance leases allocated to the period of the lease using the net investment method, which reflects a constant periodic rate of return, unless collectability is in doubt.

Interest on factoring and working capital receivables is recognised using effective interest method over the tenure of agreement.

Interest on past due and impaired loans is recognised and reserved from income and reversed to the extent of the interest on over due installments collected. Penal charges and other fees are recognised when realised.

2.3 Impairment of financial assets

Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

(i) Significant financial difficulty of the borrower;

(ii) A breach of contract, such as a default or delinquency in interest or principal payments;

(iii) The Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;

(iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

2 Summary of significant accounting policies (continued)

2.3 Impairment of financial assets (continued)

(v) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group; or national or local economic conditions that correlate with defaults on the assets in the group.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Company's grading process that considers asset type, industry, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with the assets and the Company's historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data, including peer statistics, to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect, and be directionally consistent with, changes in related observable data from period to period (for example, payment status or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company and, if required, revised in order to reflect in loss estimates any changes in actual loss experience.

When a receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written off against the related provision for loan impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.3 Impairment of financial assets (continued)

The Company may restructure loans at the request of customers. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

2.4 Property and equipment

Land and buildings are shown at revalued amounts, based on valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of valuation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset’s carrying amount, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. All other repairs and maintenance expenses are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property and equipment. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	10
Furniture, fixtures and equipment	4
Computer hardware & software	3
Motor vehicles	3

Freehold land and capital work-in-progress are not depreciated.

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.6 Borrowings

Borrowings which include corporate deposits are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the repayment period of the borrowings using the effective interest rate method.

2 Summary of significant accounting policies (continued)

2.7 Assets held for sale

Assets held for sale represent collateral acquired in part settlement of amount due from customers and are initially recognised at cost, being the fair value of the consideration given, and subsequently measured at the lower of cost and net realisable value. Write-downs to adjust the cost to net realisable value are recognised in the statement of comprehensive income in the period in which they arise.

2.8 Creditors and accruals

Creditors and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

2.9 Staff terminal benefits and leave entitlements

Provision for non-Omani employee terminal benefits, an unfunded defined benefit retirement plan, is made in accordance with Omani Labor Laws and is based on the liability that would arise if the employment of all such employees were terminated at the reporting date. The Company's obligation in respect of non-Omani terminal benefits is the amount of benefits that such employees have earned in return for their service in the current and prior periods. Employees' entitlements to annual leave are recognized when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurance Law of 1991 are recognized as an expense in the statement of comprehensive income as incurred.

2.10 Foreign currency transactions

(a) Functional and presentation currency

Items included in the Company's financial statements are measured using Rial Omani which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in Rial, rounded to the nearest thousands.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.11 Taxation

Income tax on the result for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated in respect of temporary differences between the carrying amounts for financial reporting purposes and the tax bases. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

2 Summary of significant accounting policies (continued)

2.11 Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.12 Dividend distribution

The Company's dividend distribution policy encompasses the following factors:

(a) provide shareholders a reasonable return commensurate with the size of their investment in the Company; and

(b) build reserves to achieve a strong capital base.

After due consideration of the above factors the Company's management proposes the amount of dividend to the Board and shareholders at the Annual General Meeting subject to the approval of the Central Bank of Oman.

Dividends are recognised as liability in the period declared.

2.13 Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting determines and approves the remuneration and the sitting fees for the Board of Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after transfers to the legal reserve and the optional reserve and notionally calculating or distributing the dividends to shareholders at not less than 5% of capital. Such fees shall not exceed Rial 200,000 in one year. The sitting fees for each Director does not exceed Rial10,000 in one year.

2.14 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.15 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expense, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Company's chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.16 Trade and settlement date accounting

Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

2 Summary of significant accounting policies (continued)

2.17 Derecognition of financial assets

A financial asset (in whole or in part) is derecognised where:

(a) the right to receive cash flows from the asset have expired; or
(b) the Company has transferred it rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass through’ arrangement; and
(c) either (i) the Company has transferred substantially all the risks and rewards of ownership, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards of the assets but has transferred control over the asset or a proportion of the asset.

3 Financial risk management

The Company believes that sound risk management practices are imperative in ensuring that strong results can be delivered to stakeholders. The Company aims to ensure that its risk management structure provides the infrastructure for it to be able to implement best practices according to the size of its operations.

The Company aims to follow a strategy of minimising risk in order to reduce its vulnerability to adverse market conditions and this is reflected in the risk appetite set by the Board of Directors and implemented by Management. The low assumption of risk is mainly achieved through diversification of the asset portfolio.

Risk management functions are carried out by the Risk Manager. The Company has independent policies and procedures which address credit risk, liquidity risk and interest rate risk, which arise from the Company’s business.

3.1 Credit risk

As the Company’s core business is lease financing, credit risk forms the major risk to which the Company is exposed. Credit risk is the risk that a counterparty will cause financial loss to the Company by failing to discharge an obligation.

The Company does not consider credit risk with respect to balances placed with banks to be significant as the Company is currently dealing with only reputable banks of minimum investment grade of P-2 of Moody’s or equivalent.

Similarly, management believe that credit risk related to advances and other receivables is minimum as the Company has a long history of dealing with its dealers and other suppliers.

The Company employs a range of policies and practices to manage, limit and control concentration of credit risk to individual counter parties, groups and industries with respect to its lease receivables.

The level of credit risk in relation to each individual counterparty and its associates is structured by placing a maximum ceiling on exposure levels for each grade. Such risks are monitored on a regular basis and review reports are placed before the Board of Directors.

3.1.1 Credit risk measurement

The Company’s credit policy aims to ensure that the target portfolio credit loss will be less than 1% of the portfolio for the current size and structure of the portfolio and the macroeconomic situation. The Board of Directors reviews this loss norm annually along with the management.

3 Financial risk management (continued)

3.1.1 Credit risk measurement (continued)

In case of the portfolio of exposure to small and medium size enterprises (SMEs), the credit risk for individual counterparties are assessed at inception of the lease through a grading methodology tailored to various categories of counterparties. These have been developed internally and the customers are rated on certain predefined financial and non-financial parameters. The grading takes into account factors including the customers experience in similar business, management quality, net worth, availability of audited financial statements, key performance indicators and ratios, trade references, the industry in which the customer operates and its vulnerability to economic downturn, as well as the customer’s past track record with the Company (in case of existing clients). The grading parameters are reviewed annually and amended as considered appropriate in line with the Company’s assessment of market risk trends.

Credit risk in the case of the retail portfolio is assessed at the inception of the lease on the basis of the net disposable income of the counterparty, stability of employment in case of salaried clients and income levels from business /other sources for other categories of customers.

3.1.2 Credit risk control and mitigation policies

The Company’s portfolio comprises leases of vehicles and equipment wherein the lending is collaterised by the assets financed. The Company holds collaterals in respect of lease receivable exposures in the form of joint title to the vehicles and equipment financed. The values against these collaterals are written down on a yearly basis based on the estimated useful life of these assets and considering guidelines issued by the Central Bank of Oman. In addition to these collaterals, the Company also holds additional security in the form of property collaterals for certain leases in order to strengthen its risk position.

In order to minimise credit loss, wherever deemed necessary, additional credit enhancements such as charges on immoveable and moveable assets, personal guarantees of the major shareholders, corporate guarantee of the parent company in case of group exposures, key man life insurance and assignment of contract proceeds are obtained.

The Company’s credit policy identifies certain categories of customers as “negative customers” and they are not considered for financial assistance. These include known defaulters, customers with poor market standing and other categories based upon statistics published by the Central Bank of Oman.

The repayments are primarily through post dated cheques. Dishonoured cheques are monitored closely and follow up is ensured.

The Company has clear policies in place to identify early warning signals and to initiate appropriate and timely remedial actions. Some of the early warning indicators are listed below:

- frequent dishonour of cheques
- inability to reach the customer over phone or in person
- lack of response to written communications
- utilised limits in excess of authorised limits as disclosed by BCSB data
- inability to obtain current financials
- adverse market feedback

3 Financial risk management (continued)

3.1.3 Impairment and provisioning policies

The Company's lease receivable impairment policy is as set out in note 2.3. The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its lease portfolio. The main component of this allowance is specific loss as determined under CBO guidelines and IFRS requirements and relates to individual customer exposures. A collective loan loss allowance is established by using available historical experience, management judgment and peer statistics for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	2012 Rial '000	2011 Rial '000
Exposure		
Bank balances	**1,910**	1,238
Statutory deposit	**90**	50
Net investment in financing activities	**126,686**	107,520
Advances	**1,840**	1,131
Credit risk exposure relating to off balance sheet items		
Bank guarantees	**307**	423
Approved lease commitments at 31 December	**11,071**	7,335
Total exposure	**141,904**	117,697

The above table represents a worst case scenario of credit risk exposure of the Company at 31 December 2012 and 2011 without taking into account any collateral held.

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Company resulting from both its net investment in finance leases and advances.

3.1.5 Finance lease receivables

As at the year end, the details of gross exposure (net of unearned lease income) are set out below:

	2012 Rial '000	2011 Rial '000
Neither past due nor impaired	**103,138**	91,199
Past due but not impaired	**22,214**	15,928
Impaired	**9,030**	6,499
Total	**134,382**	113,626

(a) Finance lease receivables neither past due nor impaired

77% of the portfolio at 31 December 2012 represents this category as per the Company's grading set out above (2011- 80%).

	2012 Rial '000	2011 Rial '000
Fair value of collaterals	**98,540**	86,929

3 Financial risk management (continued)

3.1.5 Finance lease receivables (continued)

(b) Finance lease receivables past due but not impaired

	2012 Rial '000	2011 Rial '000
Past due up to 30 days	12,237	9,116
Past due 30 to 60 days	6,367	4,248
Past due 60 to 90 days	3,610	2,564
Total	22,214	15,928
Fair value of collaterals	19,681	13,160

(c) Finance lease receivables individually impaired

	2012 Rial '000	2011 Rial '000
Past due individually impaired	9,030	6,499
Fair value of collaterals	4,125	2,184

The Company evaluates its collateral value by applying a fixed annual reduction in the value of equipment and vehicles held as collateral. Value of property held as collateral is obtained from external valuations held. The lower of 50% of appraised values and forced sale value is considered. For the purpose of this disclosure, the fair value of collateral considered is restricted to a maximum amount of the secured lease receivable.

For the purpose of this disclosure, the fair value of collateral considered is restricted to a maximum amount of the secured lease receivable.

3.1.6 Repossessed collaterals

The Company does not hold any repossessed collateral at 31 December 2012 and 31 December 2011 other than land and buildings shown as property pending sale as set out in note 13.

3.1.7 Concentration of risks

(a) Customer concentration of net investment in finance leases by type of customer

	2012 Rial '000	2011 Rial '000
Individuals	71,151	59,000
Corporate	55,535	48,520
	126,686	107,520

3 Financial risk management (continued)

(b) Geographical concentration

All the Company's financial assets and liabilities are concentrated within the Sultanate of Oman, except for loans from foreign banks from GCC states, to the extent of Rial 4.3 million (2011 - Rial 4.5 million) denominated in US Dollars.

(c) Economic sector concentration of net investment in finance leases and working capital finance

	2012	2011
	Rial '000	Rial '000
Trading, contracting and services	**49,750**	46,584
Manufacturing	**5,785**	1,936
Individuals	**71,151**	59,000
	126,686	107,520

3.1.8 Renegotiated finance debtors

Renegotiated lease receivables as at 31 December 2012 are Rial 2.1 million (2011 - Rial 1.9 million) and include impaired loans of Rial 0.4 million (2011 – Rial 0.5 million).

3.2 Market risk

3.2.1 Cash flow interest rate risk

Interest rate risk arises from the possibility of changes in interest rates and mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period.

As the Company has significant interest-bearing financial assets and liabilities, the Company's income and operating cash flows are substantially dependent on changes in market interest rates. The Company's finance lease receivables and deposits from corporate entities carry fixed interest rates. The interests on these items are fixed at the inception. Accordingly, any changes in applicable market rates would not expose the company to interest rate risk. However, the Company's bank borrowings carry variable interest rates which expose the Company to cash flow interest rate risk.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios the Company calculates the impact on its profit or loss of a 1% interest rate increase. The simulation is presented to the Asset and Liability Committee (ALCO) on a monthly basis.

Based on the simulation performed at the year end, the impact on the Company's profit after tax of a 1% increase in interest rates would be a maximum reduction of Rial 0.562 million (2011 - Rial 0.531 million).

The Company does not hedge against its cash flow and fair value interest rate risk.

3.2.2 Foreign currency risk

Foreign currency risk is the risk arising from future commercial transactions or recognised financial assets or liabilities being denominated in a currency that is not the Company's functional currency. The majority of the Company's transactions are denominated in the functional currency. The Company's foreign currency transactions are restricted to certain long-term borrowings amounting to Rial 4.3 million (2011 - Rial 4.5 million) which are denominated in US Dollar. The functional currency is effectively fixed to the US Dollar and accordingly foreign exchange risk is considered minimal. The Company has the option to enter into forward exchange contracts, where necessary, to hedge any significant risks arising from foreign currency transactions.

3 Financial risk management (continued)

3.3 Liquidity risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations and commitments on the due dates and to replace funds when they are withdrawn or facilities expire.

3.3.1 Liquidity risk management process

The Company's liquidity is managed by the Finance Department on a day to day basis. The Company has a liquidity risk policy and contingency funding plan approved by the Board of Directors. The liquidity position is currently monitored by the ALCO on a monthly basis, including: (i) day to day funding to ensure that daily requirements are met; (ii) monitoring liquidity gaps and ratios as per the documented liquidity risk policy guidelines; and (iii) monitoring, reviewing and reporting liquidity position in line with the Company's contingency funding plan. Management monitors to ensure availability of funds to meet the Company's credit commitments.

3.3.2 Funding approach

Sources of funding are regularly reviewed by the ALCO to maintain diversification through measures such as using both long-term and short-term borrowings, increasing the number of lenders, developing additional products like corporate deposits and seeking fixed interest rates for longer tenure. Ongoing discussions with bankers, depositors and potential depositors indicate that sufficient liquidity will be in place for the foreseeable future to enable the Company to meet its financial obligations as they fall due.

3.3.3 Cash flows

The table below exhibits the cash flows payable by the Company under financial liabilities by remaining contractual maturity. The amounts show gross undiscounted cash flows.

At 31 December 2012	**Up to 1 month Rial '000**	**> 1 month to 1 year Rial '000**	**> 1 year to 5 years Rial '000**	**Non-fixed maturity Rial '000**	**Total Rial '000**
Bank borrowings and deposits	**13,025**	**46,544**	**34,378**	**-**	**93,947**
Creditors and accruals	**3,411**	**-**	**-**	**-**	**3,411**
Financial liabilities	**16,436**	**46,544**	**34,378**	**-**	**97,358**
Financial assets	**5,704**	**40,383**	**82,642**	**1,605**	**130,334**

At 31 December 2011	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year to 5 years Rial '000	Non-fixed maturity Rial '000	Total Rial '000
Bank borrowings and deposits	18,100	40,074	23,608	-	81,782
Creditors and accruals	4,736	-	-	-	4,736
Financial liabilities	22,836	40,074	23,608	-	86,518
Financial assets	4,488	34,836	69,565	1,269	110,158

3 Financial risk management (continued)

3.3.4 Off balance sheet items

	2012 Rial '000	2011 Rial '000
Approved lease commitments at 31 December (note 24)	**11,071**	7,335
Bank guarantee (note 25)	**307**	423
Total exposure	**11,378**	7,758

The Company expects the majority of the approved lease commitments to be exercised by the customers and disbursed by the Company within 3 months (2011 - 3 months) of the reporting date.

3.4 Fair values

The carrying amounts, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of long-term bank borrowings is considered to approximate their carrying amounts as these either carry variable interest rates in line with current market rates or interest rates linked to LIBOR. The fair value of fixed deposits is not considered to be materially different from their carrying amount in view of the duration of these deposits which does not exceed 2 years.

None of the Company's financial instruments are carried in the statement of financial position at fair value. The Company's financial assets and financial liabilities are carried in the statement of financial position at amortised cost.

3.5 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Company also has the objective with respect to capital of meeting the requirements of the Central Bank of Oman, the Regulatory Authority. The Company was required to increase its issued share capital to Rial 20 million before 30 June 2012. Accordingly, the Company issued a rights issue of 75 million ordinary shares issued at par for 100 baizas per share in February 2012. The paid-up and issued share capital increased to Rial 25.06 million after the rights issue, which was fully subscribed.

In accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's paid-up share capital.

The Company monitors its gearing ratio in order to maintain it within the limits prescribed by the Regulatory Authority.

4 Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on lease receivables

The Company reviews its lease receivable portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of lease receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics, peer statistics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5 Operating segments

The Company has only one reportable segment namely, leasing activities, all of which are carried out in Oman. Although the Company has individual and corporate customers, the entire lease portfolio is managed internally as one operating segment. All the Company's funding and costs are common. All relevant information relating to this reportable segment is disclosed in the statement of financial position, statement of comprehensive income and notes to the financial statements.

6 Other income

	2012	2011
	Rial '000	Rial '000
Penal charges received	**217**	134
Income from pre-closed leases	**215**	443
Miscellaneous income	**172**	248
	604	825

7 General and administrative expenses

	2012	2011
	Rial '000	Rial '000
Employee related expenses	**2,214**	2,031
Advertising and sales promotion	**139**	157
Professional fees and subscriptions	**99**	79
Directors' remuneration	**97**	100
Communication costs	**85**	69
Computer maintenance	**71**	70
Occupancy costs	**43**	44
Directors' sitting fees	**26**	13
Other office expenses	**263**	285
	3,037	2,848

7 General and administrative expenses (continued)

Total employee related expenses included under general and administrative expenses comprise:

	2012 Rial ’000	2011 Rial ’000
Salaries and allowances	**1,813**	1,572
Other benefits	**153**	200
Staff terminal benefits	**148**	164
Social security costs	**46**	41
Other incentives	**54**	54
	2,214	2,031

The total number of employees as at 31 December 2012 is 139 (2011 - 120).

8 Income tax

Components of taxation for the year

The Company is liable to income tax in accordance with the income tax law of the Sultanate of Oman at the tax rate of 12% on the taxable profits in excess of Rial 30,000. The reconciliation between the tax expense and the profit before taxation is as follows:

(a) Reconciliation of income tax

	2012 Rial ’000	2011 Rial ’000
Profit before taxation	**4,731**	4,024
Taxation at the applicable tax rate	**568**	483
Add/(less) tax effect of:		
Items (deductible) / not deductible	**50**	(5)
Taxation expense	**618**	478

(b) Status of tax assessments

Tax assessment up to year 2007 are complete. Assessment for tax years 2008 to 2012 are subject to agreement with the Oman Taxation Authorities. The Directors are of the opinion that the additional taxes assessed, if any, would not be material to the Company’s financial position as at 31 December 2012.

9 Earnings per share and net assets per share

The calculation of earnings per share is as follows:

	2012	2011
Profit for the year attributable to the ordinary shareholders (Rial ’000)	4,113	3,546
Net assets (Rial ’000)	33,763	23,904
Weighted average number of shares (refer note 16) (Rial ’000)	244,295	175,545
Earnings per share (Rial)	0.017	0.020
Net assets per share (Rial)	0.135	0.136

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. Net assets per share are calculated by dividing net assets by the number of shares in issue at 31 December 2012 of 250,544,686 shares (2011 - 175,544,686).

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

10 Cash and bank balances

	2012 Rial ’000	2011 Rial ’000
Bank current accounts	1,910	1,237
Cash in hand	2	1
	1,912	1,238

11 Statutory deposit

The Company is required to increase capital deposit by Rial 200,000 over a period of five years with the Central Bank of Oman (CBO) in accordance with the applicable licensing requirements. The company paid Rial 40,000 during the year as capital deposit to CBO and accordingly capital deposit increased to Rial 90,000 (2011 - Rial 50,000). During the year, the deposit earned effective interest at the rate of 1.5 % per annum (2011 - 2%).

12 Net investment in financing activities

	2012 Rial ’000	2011 Rial ’000
Gross investment in finance leases	158,033	132,579
Working capital finance	508	989
Unearned lease income	(24,159)	(19,942)
	134,382	113,626
Provision for impairment of lease receivable	(6,878)	(5,485)
Unrecognised contractual income	(818)	(621)
Net investment in finance leases	126,686	107,520

12 Net investment in financing activities (continued)

(a) Contractual income is not recognised by the Company on impaired finance leases to comply with the rules, regulations and guidelines issued by the Central Bank of Oman. At 31 December 2012, investment in leases where contractual income has not been recognised was Rial 9.03 million (2011 - Rial 6.5 million). At 31 December 2012, the provision for impairment and unrecognised contractual income were Rial 7.696 million (2011 - Rial 6.106 million).

(b) Net investment in rescheduled finance leases was as below:

	2012 **Rial '000**	2011 Rial '000
Net investment in rescheduled finance leases	**2,099**	1,876

(c) Lease repayments due more than one year from the reporting date amount to Rial 82.6 million (2011 - Rial 69.5 million).

(d) Unearned lease income:

	2012 **Rial '000**	2011 Rial '000
1 January	**19,942**	14,274
Additions during the year	**16,218**	15,929
Recognised during the year	**(12,001)**	(10,261)
31 December	**24,159**	19,942

(e) Provision for impairment of lease receivables:

	2012 **Rial '000**	2011 Rial '000
1 January	**5,485**	4,449
Provided during the year	**1,862**	1,478
Released during the year	**(466)**	(434)
Written off during the year	**(3)**	(8)
31 December	**6,878**	5,485

(f) Unrecognised contractual income:

	2012 **Rial '000**	2011 Rial '000
1 January	**621**	504
Additions during the year	**307**	226
Recognised during the year	**(110)**	(109)
31 December	**818**	621

13 Property pending sale

Property pending sale represents land and building acquired by the Company in part settlement of amounts due by borrowers following the conclusion of all credit recovery procedures available to the Company.

14 Tax liabilities

	Note	2012 Rial '000	2011 Rial '000
Deferred Tax Asset	Note 14(a)	(358)	(668)
Deferred Tax Liability	Note 14(b)	175	176
Provision for income Tax	Note 14(c)	719	937
Tax Liabilities		536	445

(a) *Deferred tax asset*

Deferred tax asset arises in respect of provision for impairment of lease receivables. The deferred tax asset recognised in the statement of financial position and the movements during the year are as follows:

	2012 Rial '000	2011 Rial '000
1 January	668	544
Movement during the year	(310)	124
31 December	358	668

(b) *Deferred tax liability*

Deferred tax liability arises in respect of unamortised initial direct costs and revaluation of land and buildings. The deferred tax liability recognised in the statement of financial position and the movements during the year are as follows:

	2012 Rial '000	2011 Rial '000
1 January	176	182
Movement during the year	(1)	(6)
31 December	175	176

(c) *Provision for Income Tax*

The provision for income tax recognised in the statement of financial position and the movements during the year are as follows:

	2012 Rial '000	2011 Rial '000
1 January	937	587
Movement during the year	308	610
Paid during the year	(526)	(260)
31 December	719	937

15 Property and equipment

	Freehold land Rial ’000	Buildings Rial ’000	Furniture, fixtures and equipment Rial ’000	Motor vehicles Rial ’000	Total Rial ’000
Cost or valuation					
1 January 2012	**800**	**300**	**638**	**170**	**1,908**
Additions	**155**	**-**	**422**	**-**	**577**
Released on disposals	**-**	**-**	**(13)**	**-**	**(13)**
31 December 2012	**955**	**300**	**1,047**	**170**	**2,472**
Depreciation					
1 January 2012	**-**	**169**	**497**	**23**	**689**
Charge for the year	**-**	**43**	**184**	**54**	**281**
Released on disposals	**-**	**-**	**(13)**	**-**	**(13)**
31 December 2012	**-**	**212**	**668**	**77**	**957**
Net book value					
31 December 2012	**955**	**88**	**379**	**93**	**1,515**

	Freehold land Rial ’000	Buildings Rial ’000	Furniture, fixtures and equipment Rial ’000	Motor vehicles Rial ’000	Total Rial ’000
Cost or valuation					
1 January 2011	800	395	512	25	1,732
Additions	-	-	126	145	271
Released on disposals	-	(95)	-	-	(95)
31 December 2011	800	300	638	170	1,908
Depreciation					
1 January 2011	-	169	437	10	616
Charge for the year	-	54	60	13	127
Released on disposals	-	(54)	-	-	(54)
31 December 2011	-	169	497	23	689
Net book value					
31 December 2011	800	131	141	147	1,219

An independent valuation of the land and buildings was last performed by an independent valuer on 31 December 2007. The revaluation surplus net of applicable deferred income tax was credited to other comprehensive income and is shown in “revaluation reserve”. If the land and building were stated on the historical cost basis, the amount would be Rial 0.020 million (2011- Rial 0.040 million).

16 Share capital

The authorised share capital of the Company comprises 300,000,000 ordinary shares of Baizas 100 each (2011 - 300,000,000 ordinary share of Baizas 100 each). The Company's issued and fully paid-up share capital amounts to 250,544,686 ordinary shares of Baizas 100 each (2011 - 175,544,686 ordinary shares of Baizas 100 each).

Shareholders who own 10% or more of the Company's share capital are:

	2012		2011	
	Number of shares held	**%**	Number of shares held	%
Al Hilal Investment Co. LLC	**98,681,723**	**39.4**	69,141,567	39.4
Oman International Development and Investment Company SAOG	**60,146,475**	**24.0**	41,670,843	23.7

17 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of Oman of 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to at least one third of the Company's share capital. This reserve is not available for distribution.

18 Creditors and accruals

	2012 Rial '000	2011 Rial '000
Creditors	**2,478**	3,862
Accruals and other liabilities	**933**	874
	3,411	4,736

19 Staff terminal benefits

The movement in staff terminal benefits during the year is as follows:

	2012 Rial '000	2011 Rial '000
1 January	**422**	304
Provision during the year	**148**	164
Payments during the year	**(53)**	(46)
31 December	**517**	422

20 Bank borrowings

	2012 Rial '000	2011 Rial '000
Bank overdraft	**17**	-
Short-term loans	**52,885**	48,980
Long-term loans	**28,772**	19,524
	81,674	68,504

(a) During the year, interest was charged on the above borrowings at rates ranging between 2.50% and 7.00% per annum (2011 - 2.00% and 6.50% per annum).

(b) At the reporting date, all outstanding borrowings were secured by a first priority pari-passu floating charge on the current assets of the Company, including but not limited to the Company's receivables from its customers.

21 Fixed deposits

At 31 December 2012, the Company has accepted fixed deposits from corporate entities based in Oman for a total amount of Rial 12.27 million (2011 - Rial 13.28 million), with tenure ranging from 1 to 2 years, as per guidelines issued by the Central Bank of Oman. These deposits carry interest rates between 3.00% and 5.15% per annum. The carrying amount includes interest accrued till the end of the year.

22 Proposed dividends

The Board of Directors at the forthcoming Annual General Meeting propose a cash dividend of 10% on the shares outstanding on the dividend record date. The cash dividend is expected to amount to Rial 2,505,460 (2011 - 10% cash dividend amounting to Rial 1,753,800). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2013.

23 Cash and cash equivalents

	2012	2011
	Rial '000	Rial '000
Bank overdrafts	**(17)**	-
Cash and bank balances	**1,912**	1,238
	1,895	1,238

24 Commitments

	2012	2011
	Rial '000	Rial '000
Approved lease commitments	**11,071**	7,335

Approved lease commitments will be paid within 30 days from the date of lease creation.

25 Contingencies

In its ordinary course of business, the Company has arranged for the following in favour of its customers from banks in Oman maturing by 2014.

	2012	2011
	Rial '000	Rial '000
Bank guarantee	**307**	423

26 Related party transactions

During the year, the Company entered into transactions with entities over which certain Directors are able to exert significant influence and with senior management. Such transactions are at mutually agreed terms. Significant related party transactions during the year ended 31 December 2012 were as follows:

	2012	2011
	Rial '000	Rial '000
General and administrative expenses	**4**	7
Lease rentals paid for vehicles taken on operating lease	**-**	34
Purchase of motor vehicles	**-**	151
Sales incentive paid	**71**	-
Directors' fees and remuneration		
Sitting fees	**26**	13
Proposed remuneration	**97**	100

26 Related party transactions (continued)

Year end balances arising on the above		
Net investment in finance lease	**21**	61
Proposed remuneration to directors	**97**	100
Remuneration & period end balances to key members of Management during the period		
Salaries and other benefits	**472**	410
Net investment in finance lease and advances	**31**	38

Directors remuneration for the year 2011 paid in the year 2012 was in the amount of Rial 100,000 (2010 - Rial 57,000.

27 Maturity analysis of significant assets and liabilities

At 31 December 2012	**Up to 1 month Rial ’000**	**> 1 month to 1 year Rial ’000**	**> 1 year to 5 years Rial ’000**	**Non-fixed maturity Rial ’000**	**Total Rial ’000**
Assets					
Cash and bank balances	**1,912**	**-**	**-**	**-**	**1,912**
Statutory deposit	**-**	**-**	**-**	**90**	**90**
Net investment in financing activities	**3,792**	**40,252**	**82,642**	**-**	**126,686**
Advances and prepayments	**-**	**1,840**	**-**	**-**	**1,840**
Property pending sale	**-**	**131**	**-**	**-**	**131**
Property and equipment	**-**	**-**	**-**	**1,515**	**1,515**
Total assets	**5,704**	**42,223**	**82,642**	**1,605**	**132,174**
Equity and Liabilities					
Equity				**33,763**	**33,763**
Liabilities					
Bank borrowings and fixed deposit	**13,025**	**46,544**	**34,378**	**-**	**93,947**
Creditors and accruals	**3,411**	**-**	**-**	**517**	**3,928**
Tax liabilities	**-**	**536**	**-**	**-**	**536**
Total equity and liabilities	**16,436**	**47,080**	**34,378**	**34,280**	**132,174**
Liquidity gap	**(10,732)**	**(4,857)**	**48,264**	**(32,675)**	
Cumulative liquidity gap	**(10,732)**	**(15,589)**	**32,675**	**-**	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

27 Maturity analysis of significant assets and liabilities (continued)

At 31 December 2011	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year to 5 years Rial '000	Non-fixed maturity Rial '000	Total Rial '000
Assets					
Cash and bank balances	1,238	-	-	-	1,238
Statutory deposit	-	-	-	50	50
Net investment in financing activities	3,250	34,705	69,565	-	107,520
Advances and prepayments	-	1,131	-	-	1,131
Property pending sale	-	131	-	-	131
Property and equipment	-	-	-	1,219	1,219
Total assets	4,488	35,967	69,565	1,269	111,289
Equity and Liabilities					
Equity	-	-	-	23,904	23,904
Liabilities					
Bank borrowings and fixed deposit	18,100	40,074	23,608	-	81,782
Creditors and accruals	4,736	-	-	422	5,158
Tax liabilities	-	445	-	-	445
Total equity and liabilities	22,836	40,519	23,608	24,326	111,289
Liquidity gap	(18,348)	(4,552)	45,957	(23,057)	-
Cumulative liquidity gap	(18,348)	(22,900)	23,057	-	

28 Effective interest rate analysis of financial assets and financial liabilities

At 31 December 2012	**0% - less than 5% Rial '000**	**5% - less than 10% Rial '000**	**10% - less than 15% Rial '000**	**15% and above Rial '000**	**Total Rial '000**
Assets					
Cash and bank balances	**1,912**	-	-	-	**1,912**
Statutory deposit	**90**	-	-	-	**90**
Net investment in financing activities	**216**	**49,376**	**76,583**	**511**	**126,686**
Total	**2,218**	**49,376**	**76,583**	**511**	**128,688**
Liabilities					
Bank borrowings and fixed deposit	**81,396**	**12,551**	**-**	**-**	**93,947**
Creditors and accruals	**3,411**	**-**	**-**	**-**	**3,411**
Total	**84,807**	**12,551**	**-**	**-**	**97,358**

At 31 December 2011	0% - less than 5% Rial '000	5% - less than 10% Rial '000	10% - less than 15% Rial '000	15% and above Rial '000	Total Rial '000
Assets					
Cash and bank balances	1,238	-	-	-	1,238
Statutory deposit	50	-	-	-	50
Net investment in financing activities	503	63,116	43,271	630	107,520
Total	1,791	63,116	43,271	630	108,808
Liabilities					
Bank borrowings and fixed deposit	47,484	34,298	-	-	81,782
Creditors and accruals	4,736	-	-	-	4,736
Total	52,220	34,298	-	-	86,518

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

29 Effective interest rate analysis of financial assets and financial liabilities (continued)

Interest rate sensitivity analysis

The Company's interest rate sensitivity position, based on the contractual reprising or maturity dates is set out below:

At 31 December 2012	**Effective interest rate %**	**Up to 1 month Rial '000**	**> 1 month to 1 year Rial '000**	**> 1 year to 5 years Rial '000**	**Non-fixed maturity Rial '000**	**Non-interest bearing Rial '000**	**Total Rial '000**
Assets							
Cash and bank balances	**-**	**-**	**-**	**-**	**-**	**1,912**	**1,912**
Statutory deposit	**1.5%**	**-**	**-**	**-**	**90**	**-**	**90**
Net investment in financing activities	**0% to 18%**	**3,792**	**40,252**	**82,642**	**-**	**-**	**126,686**
Total assets		**3,792**	**40,252**	**82,642**	**90**	**1,912**	**128,688**
Liabilities							
Bank borrowings and fixed deposit	**2.5% to 6.5%**	**13,025**	**46,544**	**34,378**	**-**	**-**	**93,947**
Creditors and accruals	**-**	**-**	**-**	**-**	**-**	**3,411**	**3,411**
Total equity and liabilities		**13,025**	**46,544**	**34,378**	**-**	**3,411**	**97,358**
Interest rate sensitivity gap		**(9,233)**	**(6,292)**	**48,264**	**90**	**(1,499)**	**31,330**
Cumulative interest rate sensitivity gap		**(9,233)**	**(15,525)**	**32,739**	**32,829**	**31,330**	

At 31 December 2011	Effective interest rate %	Up to 1 month Rial '000	> 1 month to 1 year Rial '000	> 1 year to 5 years Rial '000	Non-fixed maturity Rial '000	Non-interest bearing Rial '000	Total Rial '000
Assets							
Cash and bank balances	-	-	-	-	-	1,238	1,238
Statutory deposit	2.0%	-	-	-	50	-	50
Net investment in financing activities	0% to 18%	3,250	34,705	69,565	-	-	107,520
Total assets		3,250	34,705	69,565	50	1,238	108,808
Liabilities							
Bank borrowings and fixed deposit	2% to 6.5%	18,100	40,074	23,608	-	-	81,782
Creditors and accruals		-	-	-	-	4,736	4,736
Total equity and liabilities		18,100	40,074	23,608	-	4,736	86,518
Interest rate sensitivity gap		(14,850)	(5,369)	45,957	50	(3,498)	22,290
Cumulative interest rate sensitivity gap		(14,850)	(20,219)	25,738	25,788	22,290	